



ANNEXURE

AA 1

NARRATED ADJUSTMENT BUDGET 2019/20 FINANCIAL YEAR

MEETING TO BE HELD ON

30 JUNE 2020

**SPECIAL ADJUSTMENT BUDGET OF
MOQHAKA LOCAL
MUNICIPALITY**



**2019/20 TO 2021/22
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS**

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All public libraries within the municipality's jurisdiction
At www.moqhaka.gov.za

Purpose

The purpose of the report is to obtain approval for adjustments to the approved 2019/20 Medium Term Revenue and Expenditure Framework (MTREF) in terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

Background

The Municipal Council approved the Adjustment budget for 2019/20 MTREF on **28 February 2020** (Resolution No. 239) in accordance with the requirements of section 28 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and applicable National Treasury guidelines.

Section 28 (2) of the MFMA provides guidelines on when and how an adjustments budget can be prepared. The guidelines are the following:

- A municipality may revise an approved annual budget through an adjustments budget.
- An adjustments budget -
 - (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Executive Mayor of the municipality;
 - (d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
 - (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - (f) may correct any errors in the annual budget; and
 - (g) may provide for any other expenditure within a prescribed framework.

This special adjustment budget comes as a result of the impact the National Disaster [COVID-19] has on the municipality. The economic impact of Covid-19 remains unknown, as most people has lost employment mainly due to several companies closing as a result of lack of economic activities. The economic pressures are still unknown, even though it will be strongly felt by the local government [municipality] in terms of non-payment of municipal services which in turn threatens the financial sustainability of municipalities.

This however has brought significant burden on the municipality's delapidated infrastructure assets, in particular water and sanitation. The municipality is experiencing a high number of burst water lines and collapsed sewer line which are exacerbated by the fact that most community members are at home due to the lockdown restrictions.

Special Adjustment Budget

The following table outlines the consolidated overview of the adjusted Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2019/20 MTREF

R thousand	Adjustment Budget 2019-20	Special Adjustment Budget 2019-20	Budget Year +2 2020/21	Budget Year +3 2021/22
Total Operating Revenue	876 105	869 795	916 764	967 186
Total Operating Expenditure	853 320	855 911	902 130	951 747
<i>(Surplus)/Deficit for the year</i>	22 785	13 884	14 633	15 438
Total Capital Expenditure	76 503	67 469	71 112	75 024

The following table is a summary of the adjusted budget.

Table 2 Summary of revenue classified by main revenue source

Revenue types			
R thousand	Adjustment Budget 2019/20	Special Adjustment Budget 2019/20	%
Property rates	76 515	76 515	0%
Service Charges:Electricity	316 640	310 408	-2%
Service Charges: Water	131 187	131 057	0%
Service Charges: Sanitation	46 925	46 925	0%
Service Charges: Refuse	34 610	34 610	0%
Rental of Facilities	8 003	8 003	0%
Interest : External Investments	1 795	1 795	0%
Interest: Outstanding Debtors	28 573	28 573	0%
Fines, penalties and forfeits	8 023	8 105	1%
Transfers Recognised Operational	209 441	209 441	0%
Other Revenue	14 393	14 361	0%
Total Revenue (Excluding capital grants)	876 105	869 795	-1%

Remarks

Electricity

The electricity revenue was adjusted downwards mainly due to the decline in consumption as a result of the National Lockdown which has resulted in many companies closing its doors unexpectedly.

Table 3: Summary of operating expenditure by standard classification item

The following table is a high level summary of the adjusted budget and MTREF (classified per main type of operating expenditure):

OPERATING EXPENSES			
Description R thousand	Adjustment Budget 2019/20	Special Adjustment Budget 2019/20	%
Employee Related Cost	292 902	293 646	0%
Remuneration of Councillors	18 595	19 369	4%
Contribution to bad debts	89 630	90 028	0%
Depreciation & Asset Impairment	4 137	2 962	-28%
Finance charges	7 397	6 552	-11%
Bulk Purchases	263 137	263 126	0%
Other Materials	10 349	10 314	0%
Contracted Services	100 890	104 094	3%
General Expenses	66 283	65 820	-1%
Total Expenditure (Excluding capital grants)	853 320	855 911	0%

Remarks

Depreciation & Asset Impairment

The decrease in depreciation is as a result of addressing the budget funding element, which is adversely affected by the non-cash items which depreciation is one of those.

Finance Costs

The decrease in finance costs were mainly with regards to the spending patterns and also to ease the budget pressures and accommodate the additional expenses as a result of Covid-19.

Contracted Services

The increase in contracted services is mainly towards the water and sanitation services in meeting the demand placed on the municipality by the National State of Disaster.

TABLE 4: TRANSFERS AND GRANT RECEIPTS

The table below provides a summary of the adjusted grants receipts:

FS201 Moqhaka - Supporting Table SB7 Transfers and grant receipts				
DESCRIPTION	REF	Budget Year 2018/19	Budget Year +2019/20	Budget Year +20/21
		Adjusted Budget	Special Adjusted Budget	
R thousands				
RECEIPTS:	1, 2			
<u>Operating Transfers and Grants</u>				
National Government:		187 902	209 454	223 900
Local Government Equitable Share		185 144	205 660	221 685
LG Seta	3	543	566	–
Finance Management Grant		2 215	2 215	2 215
Municipal Disaster Relief Grant		–	1 013	
EPWP Incentive		1 000	1 000	–
EPWP Incentive	5	1 000	1 000	–
District Municipality:		–	–	–
Other grant providers:		–	–	–
Total Operating Transfers and Grants	6	188 902	210 454	223 900
<u>Capital Transfers and Grants</u>				
National Government:		49 410	55 178	58 213
Municipal Infrastructure Grant (MIG)		39 410	40 178	42 388
Water Services Infrastructure Grant		10 000	15 000	15 825
EPWP		–	–	–
DOE		–	–	–
EPWP Incentive		–	–	–
District Municipality:		–	–	–
<i>[insert description]</i>				
Other grant providers:		–	–	–
<i>[insert description]</i>				
Total Capital Transfers and Grants	6	49 410	55 178	58 213
TOTAL RECEIPTS OF TRANSFERS & GRANTS		238 312	265 632	282 113

Comments on Adjustments:

The municipality received a disaster relief grant of R1 013 000 towards defraying expenditure due to Covid-19 Pandemic.

Table 5: Medium-term capital budget per vote

CAPITAL BUDGET (Own Funds)								
R thousand	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
Vehicles	588	-	-	-	-	-	-	588
Furniture, Equipment & Heavy Machinery	35	-	367	68	2 961	411	912	4 754
ICT Hardware	-	-	-	1 450	-	255	-	1 705
MATLWANGTLWANG DRY SANITATION	-	-	-	-	3 238	-	-	3 238
Disaster Management	-	-	-	-	-	1 047	-	1 047
Mobile Toilet	-	-	-	-	-	166	-	166
Fence	-	-	-	-	-	500	-	500
Total	623	-	367	1 518	6 199	2 379	912	11 998

Comments on Adjustments:

The capital from own funding budget was adjusted in line with the cash collection during the first half of the financial year. The capital from own funding was reprioritised to operational expenditure to assist with the fight against Covid-19, the expenditure of which the municipality did not anticipate.

The following table provides a breakdown of budgeted capital expenditure by vote:

Description	2019/20 Medium Term Revenue & Expenditure Framework			
	Adjustment Budget Year 19/20	Special Adjustment Budget Year 19/20	Budget Year +20/21	Budget Year +21/22
R thousand				
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	68 864	68 864	72 582	76 574
Service charges	464 686	458 662	483 429	510 018
Other revenue	19 054	19 096	20 128	21 235
Government - operating	209 803	209 803	221 132	233 295
Government - capital	55 178	55 178	58 158	61 356
Interest	30 368	30 368	32 008	33 769
Dividends			-	-
Payments				
Suppliers and employees	(734 404)	(738 346)	(778 217)	(821 019)
Finance charges	(7 397)	(6 552)	(6 906)	(7 286)
Transfers and Grants	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES	106 151	97 073	102 315	107 942
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	-	-	-	-
Decrease (Increase) in non-current debtors	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-
Payments				
Capital assets	(55 178)	(55 178)	(58 213)	(61 414)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(55 178)	(55 178)	(58 213)	(61 414)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	-	-	-	-
Borrowing long term/refinancing	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-
Payments				
Repayment of borrowing	-	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD	28 667	41 895	44 102	46 528
Cash/cash equivalents at the year begin:	11 670	11 670	53 565	97 666
Cash/cash equivalents at the year end:	40 337	53 565	97 666	144 194

The cash flow was projected at a collection rate of 85% on revenues except for the operating and capital grants which has been budgeted for at 100% on the original budget. These projections did not change, as the mid-year performance of the collection rate was also at 85% which is in line with the original projections. The municipality has also made provision to meet 100% of its obligations to the extent where possible however 90% percent for other expenditure has been provisioned.